INVESTMENT POLICY STATEMENT

Loyola University Maryland

LOYOLA UNIVERSITY MARYLAND

— 1852 —

Adopted February 1996
Updated February 28, 2004
Updated May 31, 2006
Updated October 23, 2009

I. DEFINITIONS

A. Purpose

The purpose of this Investment Policy Statement is to establish a clear understanding of the investment objectives and philosophy for the gifts, donations, and other funds in the form of endowment, with long term objectives Endowment (hereinafter, "Endowment"). This policy will describe the standards utilized by the Investment Committee (hereinafter, "Committee") in monitoring investment performance, as well as serve as a guideline for any investment manager retained.

While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term distributions with preservation of the real, inflation-adjusted value of assets, is crucial to the long-term success of the Endowment.

B. Scope

This policy applies to assets that are a part of the Endowment and for which the Committee has discretionary authority.

C. Investment Objective

The primary investment objective of the Endowment is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending and administrative expenses thus, at a minimum maintaining the purchasing power of the Endowment. The assets are to be managed in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in year-to-year spending.

D. Fiduciary Duty

In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with Maryland Law and the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which was enacted as state law in Maryland in 2009. UPMIFA requires fiduciaries to apply the standard of prudence in investment decision making, stating "Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the entire portfolio." All investment actions and decisions must be based solely on the interest of the Endowment. Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interests.

As summarized for the purposes of this Investment Policy Statement, UPMIFA states that the Committee is under a duty to the Endowment to manage the funds as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Endowment. In making and implementing investment decisions, the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of the Endowment are better served without diversifying.

In addition, the Committee must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Committee to act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

E. Investment Policy Statement Review

The Investment Policy Statement may be altered or amended at any time by the Investment Committee, but shall be formally reviewed at least annually by the Committee to determine whether modifications are necessary.

F. Description of Roles

1. **Board of Trustees**

   The Board of Trustees has the ultimate fiduciary responsibility for the endowment. The Board must ensure that appropriate policies governing the management of the portfolio are in place and that these policies are being effectively implemented. To implement these responsibilities, the Board delegates authority to the Investment Committee for implementation and ongoing monitoring.

2. **Investment Committee**

   The Committee is responsible for adopting and approving the provisions of this Investment Policy. This responsibility includes approving investment strategy; hiring and firing of investment managers, custodians, and investment consultants; monitoring performance of the Endowment on a regular basis (at least quarterly); and maintaining sufficient knowledge about the Endowment and its managers to be reasonably assured of their compliance with the Investment Policy Statement.

3. **Vice President for Finance and Treasurer**

   The Vice President for Finance and Treasurer has daily responsibility for administration of the Endowment and will consult with the Committee and the investment consultant on matters relating to the investment of the Endowment. The Vice President for Finance and Treasurer will serve as primary contact for the Endowment's investment managers, investment consultant, and custodian. Additions to principal shall be allocated by the Vice President for Finance and Treasurer with the advice of the Investment Committee.

4. **Investment Consultant**

   The investment consultant is responsible for assisting the Committee and Vice President for Finance and Treasurer in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

   a. Monitor the activities of each investment manager or investment fund, provide the Investment Committee with updates as necessary. To include review of all communications from managers, review of SEC filings, review of audited financial statements, examination of portfolio holdings, analysis of style attribution, assessment of operational and risk management procedures, monitoring of redemption request deadlines, alternative investment valuations.
   b. Monitor the portfolio allocations on a quarterly basis to determine whether any rebalancing actions are necessary to bring asset allocation in line with prescribed policy ranges.
   c. Provide the Committee with quarterly performance reports

d. Provide the Committee with proactive recommendations
e. Supply the Committee with reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested
f. Provide the Committee with a quarterly letter assuring the investment portfolio is within the guideline of this Investment Policy Statement
g. Annually review this Investment Policy Statement with the Committee
h. See also **III. Evaluation & Performance Measurement, A. Manager Selection, Evaluation, and Retention** on page 7

5. **Investment Custodian**
The Investment Custodian has the daily responsibility for the accurate and timely reporting of manager transaction and valuations. The Custodian will provide monthly statements to the Vice President for Finance and Treasurer and the Investment Consultant.

6. **Investment Responsibilities**
Appendix A outlines the major responsibilities of the Investment Committee, Investment Consultant, Investment Custodian, and Vice President for Finance and Treasurer.

G. Spending Policy

It is the policy of the University to distribute 5% of a trailing three-year average of the Endowment's total asset value as of May 31, with the understanding that this spending rate will not normally exceed the total real return (return net of inflation) from investments.

II. INVESTMENT PHILOSOPHY

A. Strategy

The Committee understands the long-term nature of the Endowment and believes that investing in assets with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets provide the added benefit of inflation protection.

Fixed income and absolute return strategies will be used to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the Endowment, but is a residual to the investment process and used to meet short-term liquidity needs.

B. Asset Allocation

Asset allocation will likely be the key determinant of the Endowment's returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total Endowment, rather than judging asset categories on a stand-alone basis.

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Endowment, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level. To achieve these goals, the asset allocation will be set with the following target percentages and within the following ranges:

ASSET CATEGORY	TARGET	RANGE	BENCHMARKS
GLOBAL EQUITY	**60%**	**40-80%**	**MSCI All Country World Index**
Public	*40*	*30-60*	*MSCI All Country World Index*
Private	*12*	*0-20*	*Venture Economics Pooled Average*
Hedged Equity	*8*	*0-15*	*Credit Suisse/Tremont HFI Long/Short*
GLOBAL FIXED INCOME	**18**	**5-30**	**Barclays Capital Aggregate Bond**
Interest Rate Sensitive	*10*	*5-25*	*Barclays Capital Aggregate Bond*
Credit	*8*	*0-10*	*Barclays U.S. Intermediate Credit*
REAL ASSETS	**12**	**5-25**	**CPI + 5%**
Real Estate	*5*	*0-15*	*FTSE EPRE/NAREIT Global Real Estate*
Natural Resources	*7*	*0-15*	*CPI + 5%*
DIVERSIFYING STRATEGIES	**10**	**0-20**	**U.S. T-Bills + 3%**
Absolute Return Hedge Funds	*10*	*0-20*	*U.S. T-Bills +3%*
CASH	**0**	**0-10**	**3-Month U.S. T-Bills**

Sub category investments may have different benchmarks against which investments may be measured. The targets in the table above will be reached not later than May 31, 2011. The private equity target may take longer to achieve due to the need for vintage year diversification.

C. Asset Class Objectives

Each asset class plays a certain role in the portfolio as described below:

Global Equity Fund	
Public Equity	These assets are liquid ownership claims on the growth opportunities provided by U.S. public corporations and are included in the portfolio for capital appreciation. Equities are expected to provide a long-term hedge against inflation, and have historically outperformed fixed income over long periods of time. However, this risk premium over fixed income is needed to compensate investors for the greater risk or volatility of these assets over short to intermediate periods of time.

Private Equity	Private equity broadly refers to non-public investments in companies that are less liquid and are expected to outperform the public equity market. Generally these investments are made as equity but may also include mezzanine or sub-debt structures. These strategies are commonly segmented into three categories: Venture capital investing, buyout investing, and special situations (distressed). Investments in private equity should be diversified by strategy and vintage year.
Hedged Equity	Hedged equity strategies opportunistically invest in a broadly defined market with few constraints. They generally include liquidity constraints such (usually annual). As directional strategies, these funds will tend to be somewhat correlated with market movements, but generally do not closely track a market benchmark. These funds will take both long and short positions, may use leverage, and actively manage market exposure.
Global Fixed Income	
Interest Rate Sensitive	The goal of the interest rate sensitive portion of fixed income is to provide income and stability for overall performance and as a diversifier to equities and other investments. Interest rate sensitive investments often include "core" fixed income holdings such as high quality bonds. The interest rate sensitive portion of the fixed income pool is also expected to provide a hedge against deflation.
Credit	Credit investments include fixed income opportunities where the yield (and expected total return) is generally higher than "core" strategies that may be included in the interest rate sensitive category. Credit investments will generally exhibit greater risk than core fixed income.
Real Assets	
Real Estate	Real estate is expected to provide an inflation hedge as well as diversification relative to other investments. Real estate investments include private real estate as well as public real estate through REITs. REITs are liquid, but performance may be affected by movements in the stock market. Private real estate is a purer allocation to real estate and may benefit from specialized manager knowledge but requires liquidity constraints (10-year commitment in many cases).
Natural Resources	Natural resources include private energy, timber, and commodities. Commodity investments made through the futures market are usually liquid, but may be affected by supply/demand issues potentially diluting the desired allocation. Private investments provide a purer natural resource exposure and may benefit from specialized manager knowledge but require liquidity constraints (10-year commitment in many cases).
Diversifying Strategies	
Absolute Return Hedge Funds	Absolute return hedge fund strategies are generally non-directional (not correlated to the markets) and tend to utilize multiple strategies that seek to exploit idiosyncratic (unique, non-market) risks that are not impacted by broad economic, political, or social events. Examples of these strategies include: Equity Market Neutral, Fixed Income

	Arbitrage, Merger Arbitrage, Convertible Arbitrage, and Relative Value Arbitrage. Investments may require liquidity constraints (annual in many cases).
Cash	
Cash	Cash has underperformed stocks and bonds, and has barely outperformed inflation over long periods of time. Given the opportunity cost of holding cash, it should not be used as a strategic investment.

D. Investment Risk

The University recognizes that the Endowment Fund is subject to various sources of risk: investment risk (volatility in assets, tracking error, etc.), peer risk, liquidity risk, and shortfalls in endowment payout to the University budget (spending rate risk).

E. Restricted Investments

Certain funds are obtained by the University through donations wherein the donor has placed restrictions on the form of investment to which these amounts may be applied, whether directly, by specifying qualifying investment vehicles, or indirectly, by stipulating a higher-than-normal spending rate. Such funds will be invested in accordance with the donor's requirement to the extent such requirement is a condition of the gift, and will be segregated from the total pool of available funds subject to the present investment guidelines with respect to asset allocation.

F. Rebalancing

The Investment Consultant will monitor the portfolio allocations on a quarterly basis to determine whether any rebalancing actions are necessary to bring asset allocation in line with prescribed policy ranges. If the portfolio moves outside of the ranges, the Investment Consultant will develop a recommendation for the Investment Committee of actions needed to rebalance. The additions of new money or withdrawals for spending may be used to rebalance.

G. Liquidity

A goal of the Endowment is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. The Committee understands that in many instances, the most appropriate investment option is one that comes with liquidity constraints. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process.

H. Guidelines for Transactions

Except under unusual circumstances, all transactions should be entered into on the basis of best execution, which means best net realized price. Commissions may be designed for payment of services rendered to the endowment in connection with its management.

I. Illiquid and Semi-Liquid Investments

Illiquid investments include private equity, private real estate, and natural resources. Hedge funds are considered semi-liquid due to lock-up periods, redemptions, restrictions, and in some cases, illiquidity of the underlying investments.

J. Social Responsibility Investment Policy

Although its primary objective is to maximize return, the Investment Committee acknowledges there are compelling moral and social considerations in the administration of the endowment funds. Subject to the Committee's determination, such considerations may preclude investment in certain companies, industries or countries regardless of apparent investment attributes.

III. Evaluation & Performance Measurement

A. Manager Selection, Evaluation, and Retention

The Investment Consultant is responsible for monitoring the performance of current managers and proactively providing the Investment Committee with recommendations for new managers.

The identification, selection, and management of managers in specific market segments will be essential in achieving the target asset allocation. As part of the due diligence process, the Investment Consultant will carefully review both quantitative and qualitative factors for each organization. Specific requirements are contained in Appendix B. Quarterly reports compiled by the Investment Consultant will be made available to the Investment Committee or management team on an as needed basis.

IV. GUIDELINES & RESTRICTIONS

A. Overview

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable for the market environment in which investment decisions must be evaluated. Therefore, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care and prudence has been met for the Endowment's investments.

Appendix A: Allocation of Investment Responsibilities

Responsibility	Investment Consultant	Investment Committee	Investment Custodian	VP Finance & Treasurer	VP Staff
Investment Policy Statement		Determines		Develops & Recommends	
Investment Consultant Performance		Determines		Monitors	
Rebalancing & Tactical Allocation within Ranges	Develops and Recommends	Determines			
Asset Class Manager Selection	Develops and Recommends	Determines			
Performance Measurement & Evaluation	Monitors & Reports	Monitors	Reports		Reconciles
Regulatory Changes	Monitors				Monitors

Appendix B: Manager Selection, Evaluation, and Retention

Conducting Research on Recommended Managers

The manager evaluation and selection process narrows the manager candidates from idea generation to formal recommendation. All managers that proceed through the manager selection process are evaluated according to the criteria outlined below. Only those that meet all of the criteria proceed to the Formal Research Report. The steps that follow encompass the entire research process. These detailed due diligence steps may vary between liquid and illiquid investments to address risks specific to the investment vehicle and mandate.

Source Managers

Introductory Meeting

Review Due Diligence Questionnaire and Requested Documents

Performance Evaluation and Verification

Reference Checks - Key Relationships

On-site Due Diligence

Review and Research Report

IC Review & Approval

Recommended Manager